

Message Text

UNCLASSIFIED

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70

ACTION NEA-16

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 PA-04

PRS-01 USIA-15 CIAE-00 COME-00 FRB-03 INR-11 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 L-03 DRC-01 /156 W

----- 017018

R 171255Z JUL 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 2741

USDOC WASHDC

UNCLAS NEW DELHI 9542

FOLLOWING TEL SENT NEW DELHI INFO CALCUTTA AND MADRAS FROM
BOMBAY JULY 17, 1974, REPEATED TO YOU FOR INFO: QUOTE

UNCLAS BOMBAY 1613

E. O. 11652: N/A

TAGS: EFIN

SUBJ: AMENDED DIVIDEND ORDINANCE CRIPPLES STOCK MARKET

REF : BOMBAY 1527

1. IN RARE PUBLIC STATEMENT, J.R.D. TATA TERMED THE
RECENT AMENDMENT TO GOI DIVIDEND FREEZE ORDINANCE "TOTALLY
DISASTROUS". TATA ASSUMED THAT THE GOVERNMENT "IS NOT
ADEQUATELY INFORMED" OF THE CONSEQUENCES OF THE AMENDMENT--
WHICH STIPULATES PAYMENT OF DIVIDENDS AFTER TAXES--AND
INDICATED THAT, IN HIS OPINION, THE AMENDMENT WILL HAVE A
"DRASTIC IMPACT ON INVESTMENTS AND DIVIDENDS" IN INDIA.

2. STOCK EXCHANGE OPENED JULY 13 (AFTER BEING CLOSED ALL
WEEK) TO OPERATE UNDER REGULATORY "FLOOR" PRICES FIXED BY
EXCHANGE AUTHORITIES (SEVEN PERCENT BELOW JULY 4 CLOSING
QUOTATION). NO BUSINESS WAS POSSIBLE, HOWEVER, SINCE
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UNOFFICIAL QUOTATIONS FOR ACTIVE STOCKS WERE FAR BELOW THE

FLOOR PRICES. THE AMENDING ORDINANCE OF JULY 15 ALMOST KILLED THE MARKET. BLUE CHIPS HAVE DROPPED BY 30-35 PERCENT SINCE JULY 4 AND FURTHER DROPS PROBABLE. LIC AND UTI, TWO MAJOR MARKET OPERATORS, REPORTEDLY ARE OUT OF MARKET FOR TIME BEING.

3. ECONOMIC TIMES STUDY OF 105 SELECTED FIRMS REVEALED THAT THE BULK OF FIRMS QUALIFIED TO PAY TWELVE PERCENT DIVIDEND UNDER THE EARLIER FORMULA WILL BE AFFECTED ADVERSELY BY THE AMENDMENT. IT IS INTERESTING, HOWEVER, THAT SOME U.S. FIRMS INCLUDED IN THE STUDY APPARENTLY WILL NOT BE AFFECTED AS SERIOUSLY AS THEIR INDIAN COLLEAGUES:

FIRM	CURRENT DIVIDEND	PAYABLE PRE-TAX DIVIDEND	PAYABLE POST-TAX DIVIDEND
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V (IN PERCENTS)

POLYHEM			
(DOT CHEMICAL)	25.60	12.00	6.60
PFIZER	22.00	12.00	12.00
RICHARDSON-			
HINDUSTAN	20.00	12.00	8.00
WARNER-HINDUSTAN	18.00	12.00	12.00
KIRLOSKAR-CUMMINS	15.00	12.00	12.00
INTERNATIONAL			
TRACTORS	12.50	8.80	9.00
PHILLIPS CARBON			
BLACK	16.00	1.00	5.00
BANE			
UNQUOTE KREISBERG			

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NNN

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